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C O N F I D E N T I A L SECTION 01 OF 02 KABUL 003864

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SUBJECT: Corruption Threatens Mobile Money Pilot Program for Police Salaries

Classified By: Ambassador E. Anthony Wayne; reasons 1.4 b & d

11. (C) Summary: Corruption threatens to subvert a mobile money (m-money) pilot program to pay Afghan National Police (ANP). Roshan, the company providing the service, recently reported that an ANP commander in Wardak province had sought a cut of his subordinates' salaries from an M-Paisa agent. The agent refused to disburse salaries to the commander and, when threatened, subsequently went into hiding. In addition, the Ministry of Finance and the Central Bank have expressed concerns over regulatory oversight and the m-money implementer's lack of experience moving large amounts of cash and want stronger oversight. Ambassador Wayne raised this corruption issue with Minister of Interior Atmar on December 1, who promised to address it decisively in the next 24 hours. As the pilot expands, avenues for corruption must be addressed in order for mobile money to improve the current salary payment system for public servants. End Summary.

Pilot Program Highlights M-money Strengths and Weaknesses
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12. (U) With USG support, the Ministry of Interior (MOI) partnered with Roshan, a cellular provider, to offer salary payments to 53 Afghan National Police in Wardak province using Roshan's M-Paisa mobile money technology beginning in July 2009. (Note: four pilot program participants have died since the program began in July.) Initial evaluations of the pilot showed the police were happy with the service and received a higher percentage of their salary since superiors were no longer able to siphon funds from salary payments. The pilot participants were among 6,500 ANP who receive their salaries in cash.

13. (U) In light of the positive performance to date, MOI officials, with Central Bank support, are enthusiastic about the program and are awaiting final approval from Minister of Interior Atmar to continue the pilot program and expand the number of participants. Other ministries, including education, energy and rural rehabilitation and development, have expressed interest in using M-Paisa for salary payments, and USG entities are studying the service as a potential tool for assistance and microfinance disbursements.

14. (U) Note: Nearly forty percent of Afghans own cellular phones, versus just three percent who have bank accounts. Mobile money generally relies on non-bank agents, allowing it to reach far beyond Afghanistan's sparse bank branches. Azizi Bank has partnered with Roshan to disburse payments through its branches, but most Afghans do not live near a branch. Roshan, the nation's largest telecom, is the only active provider of m-money services, although Etisalat is developing a competing product. End note.

Corrupt ANP Commander
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15. (SBU) Roshan recently reported that the ANP commander in Jalrez, Wardak province, called Roshan employees and asked for a cut of his subordinates' salaries. After his request was refused, he ordered

his subordinates to give him their phones and PIN numbers. On November 22, the commander collected 45 phones and demanded payment of their salaries from an M-Paisha agent. The agent refused to disburse salaries to the commander and subsequently closed shop, going into hiding. Roshan also reported that the same commander registered phones for some new officers prior to their first month and collected their salaries.

¶6. (SBU) Coordinating Director for Development Economic Affairs Ambassador Wayne raised this issue with Minister of Interior Atmar Dec. 1. Atmar said he would suspend the commander immediately and ask the Major Crimes Task Force to investigate. Roshan has asked MOI to support expansion of the M-Paisha pilot in January to a number of high-to-medium risk districts.

Regulators Express Concern

¶7. (C) The Central Bank's Financial Supervision Department is preparing an internal report on M-Paisha for the Bank Governor that identifies some reservations about the pilot. The report will include concerns that Roshan, as a mobile provider unaccustomed to moving large amounts of cash, does not have sufficient documented internal policies and procedures and is potentially comingling Afghan Government salary payments with commercial accounts. Additionally, M-Paisha services are only available in English, although Roshan has promised to translate to Dari, and provide voice as well as text. Given the low literacy rates among Afghan police, the potential reliance on literate English-speakers to explain the system to beneficiaries creates another opportunity for corruption. Roshan has seven regional representatives responsible for educating customers, and hopes to send them to all M-Paisha districts to provide

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information on using the service to participants.

¶8. (C) In addition, MoF's Treasury Department expressed concern that there is insufficient critical assessment of the pilot's outcomes and risks and that Afghan Government entities rely too heavily on Roshan and commercial bank assessments of the pilot program without considering the commercial interests of these companies. The MOF worries there is insufficient competition in selecting the program's technology and banking implementers.

Agents Could Be a Problem

¶9. (C) The M-Paisha program relies heavily on small business owners as agents, widely dispersed throughout Afghanistan. Roshan employs about 250 agents, but has experienced incredibly high turnover - in the last year, firing 300 agents, mostly for fraud. Roshan executives said agents must demonstrate significant cashflow from their primary business to cover salary disbursements and other transactions. For the pilot, agents signed a waiver accepting responsibility for the funds they process. The agents advance their personal funds and then are reimbursed from Afghan Government deposits in bank accounts. However, the MOF is legally responsible for salary funds until they reach the recipient.

Comment

¶10. (SBU) Mobile money is a tool of enormous potential for good in Afghanistan, however, one corrupt official angry at depleted opportunities for salary skimming has found a way to try to subvert this technology. Just as importantly, as other developing countries have no doubt found, poor financial oversight and staffing could quickly undermine m-money's credibility. We will continue to partner with the Afghan Government to follow up on these issues and ensure this breakthrough technology is used effectively and transparently.

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